

Message Text

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ACTION ARA-06

INFO OCT-01 SS-14 ISO-00 ARAE-00 SSO-00 NSCE-00 EB-04
OMB-01 INR-07 INRE-00 CIAE-00 NSC-05 SP-02 L-01 PRS-01
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C O N F I D E N T I A L MEXICO 3051

LIMDIS

E. O. 11652: XGDS

TAGS: EFIN MX

SUBJECT: GOM READIES ECONOMIC FINANCIAL PACKAGE

1. FINANCE MINISTER MOCTEZUMA CID TOLD PRESS THAT HE WILL PRESENT A PACKAGE OF ECONOMIC AND FINANCIAL MEASURES AT THE ANNUAL BANKERS' CONVENTION BEGINNING MARCH 14. HE DID NOT REVEAL CONTENTS OF PACKAGE, BUT SAID THAT MEASURES WOULD BE AIMED AT RESTORING CONFIDENCE AND SECURITY TO THE COUNTRY AND REVITALIZING THE ECONOMY. FINATT OBTAINED OUTLINE OF FINANCIAL MEASURES FROM BANK OF MEXICO.

2. FINANCIAL MEASURES WILL TOUCH ON LEGAL RESERVE REQUIREMENTS AND INTEREST RATES. REGARDING THE LEGAL RESERVE REQUIREMENTS THE TWO PRESENT REQUIREMENTS WILL BE UNITED INTO ONE EQUAL TO THE EFFECTIVE RATE AT PRESENT. THUS, NO RESERVES WILL BE FREED BY THIS MEASURE WHICH IS TO BE EFFECTIVE MARCH 14. ONE OF THE TWO PRESENT RESERVE REQUIREMENTS APPLIES TO DEPOSITS UP TO A CERTAIN DATE WHEREAS THE SECOND IS A MARGINAL RATE APPLICABLE TO THE INCREASE IN DEPOSITS AFTER THIS DATE. THE NEW RATE WILL BE LOWER THAN THE MARGINAL RATE, THUS, WHILE THE MEASURE WILL HAVE NO
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IMMEDIATE IMPACT ON CREDIT AVAILABILITY, AS DEPOSITS INCREASE IN THE FUTURE, A LARGER PERCENTAGE OF THE INCREASE WILL BE AVAILABLE FOR CREDIT TO THE PRIVATE SECTOR. HOWEVER, OVER THE SHORT TERM, BANKS WILL BE FORCED TO USE PART OF THIS INCREASE IN LENDABLE FUNDS TO REPAY THE BANK OF MEXICO FOR THE LOANS EXTENDED TO THE PRIVATE BANKS FROM THE CENTRAL BANK DURING THE

LAST FOUR MONTHS OF 1976. THE BANKS' LIABILITIES TO THE CENTRAL BANK REACHED 20 BILLION PESOS AT END-75. THERE ARE NOW SOMEWHAT OVER TEN BILLION PESOS. IN EFFECT, RATHER THAN LOWER RESERVE REQUIREMENTS DURING THE RUN ON THE BANKS LAST YEAR THE BANK OF MEXICO OPENED UP ITS DISCOUNT WINDOW WHICH HAD BEEN USED ONLY RARELY BEFORE.

3. MULTI-BANKS, I.E., BANKS THAT CARRY ON A VARIETY OF BANKING FUNCTIONS SUCH AS COMMERCIAL INVESTMENT, MORTGAGE, WILL BE SUBJECT TO A SINGLE RESERVE REQUIREMENT ON ALL DEPOSITS. THIS WILL BE 40 PERCENT WHICH IS THE AVERAGE RATE FOR THE BANKING SYSTEM PRESENT. THUS, FOR THOSE INSTITUTIONS MADE POSSIBLE BY A CHANGE IN THE BANKING LAW IN 1975 OF WHICH THERE ARE NOW TEN, THE SAME RESERVE REQUIREMENT WILL APPLY TO ALL TYPES OF DEPOSITS.

4. THE FINANCE MINISTER WILL ANNOUNCE THE INTENTION TO FREE INTEREST RATES OVER A PERIOD OF TIME. THE OBJECTIVE WILL BE TO LET THE MARKET DETERMINE INTEREST RATES, BUT ONLY GRADUALLY. DETAILS OF THE INTEREST RATE REFORMS HAVE STILL TO BE WORKED OUT, BUT BANK OF MEXICO WANTS TO SEE FINANCIAL BONDS--WHICH ARE, IN EFFECT, INTEREST BEARING DEMAND DEPOSITS--ELIMINATED. THEY ARE THINKING OF PERMITTING NO NEW FINANCIAL BONDS TO BE ISSUED, AND TO GRADUALLY REPLACE THEM WITH SHORT TERM DEPOSIT INSTRUMENTS FOR THREE OR SEVEN DAYS THAT PAY INTEREST BELOW THE 9.39 PERCENT GROSS RATE PAID ON CONFIDENTIAL

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FINANCIAL BONDS.

5. IN THE PAST, THE BANK OF MEXICO TENDED TO INTRODUCE NEW TYPES OF SAVINGS INSTRUMENTS RATHER THAN CHANGE DEPOSIT RATES. NOW IT HOPES TO REDUCE THE NUMBER OF INSTRUMENTS AND CONCENTRATE ON CERTIFICATES OF DEPOSITS WITH MATURITIES RANGING FROM ONE MONTH TO ONE YEAR. THE INTEREST RATE REFORMS WILL BEGIN TO TAKE EFFECT APRIL 1.

6. BANK OF MEXICO ALSO WANTS TO REDUCE RATES PAID ON DOLLAR DEPOSITS TO A LEVEL JUST SLIGHTLY ABOVE LONDON AND NEW YORK RATES. PRESENT RATES ON THREE MONTH DOLLAR DEPOSITS ARE 8.5 PERCENT FOR NON RESIDENTS AND 7.5 PERCENT FOR RESIDENTS. BANK IS THINKING OF TYING RATE ON MEX DOLLARS TO LIBO PLUS ONE PERCENT.

7. IT IS NOT CLEAR WHAT IF ANYTHING THE FINANCE MINISTER WILL SAY ABOUT THE BUDGET. THE BANK OF MEXICO

HAS MADE A CASE TO THE PRESIDENT TO REDUCE SPENDING.
THERE ARE VARIOUS REPORTS THAT BUDGETS ARE BEING CUT,
BUT WE HAVE NO CONFIRMATION FROM OFFICIALS OF THIS.

8. FIRST TOLD BY BANK OF MEXICO OFFICIALS THAT NO
CHANGES IN THE EXCHANGE SYSTEM WOULD BE ANNOUNCED.
THOMPSON

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NNN

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